

# INVO Roadmap

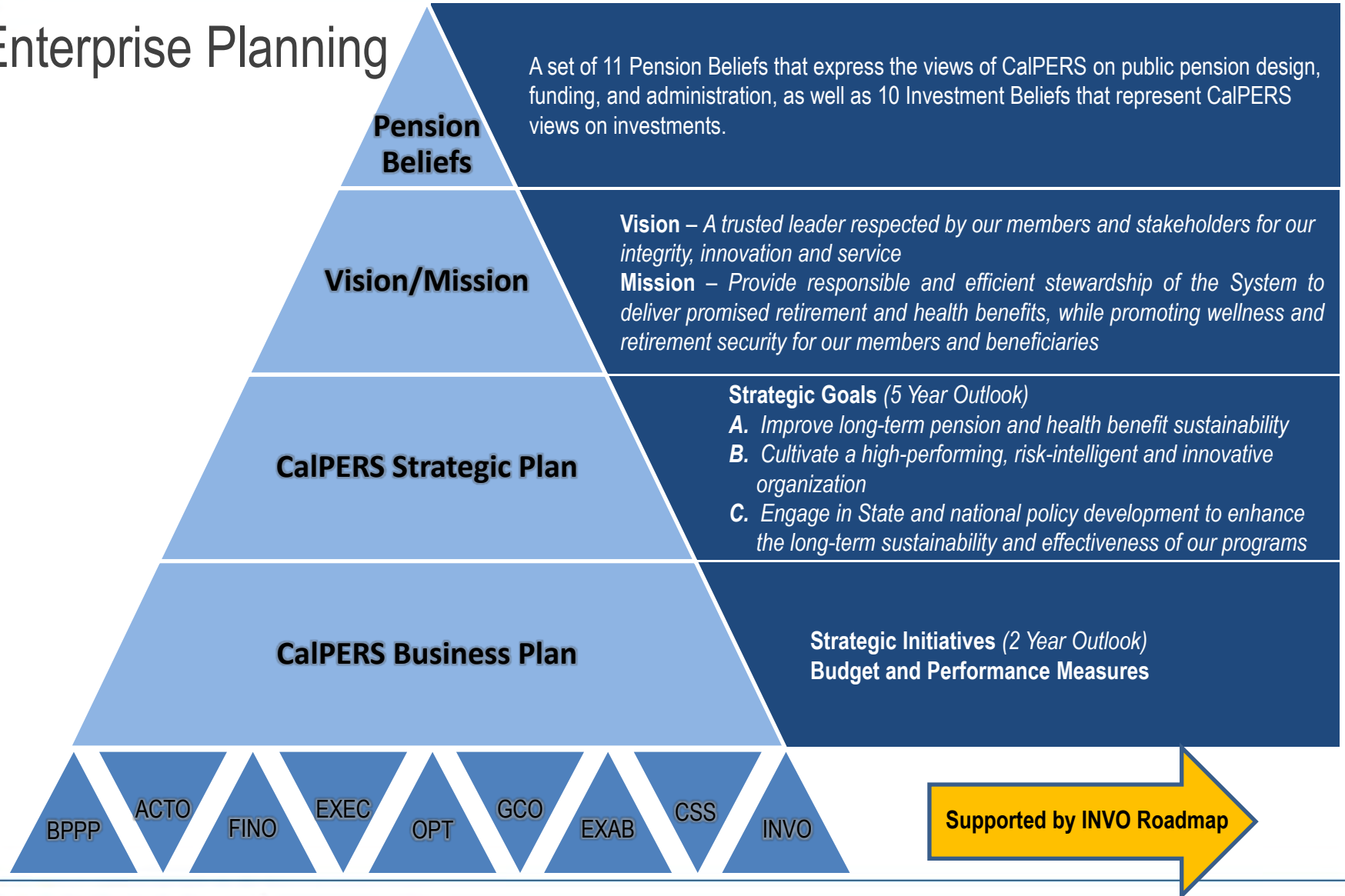
## December 2014 IC Agenda Item

December 15, 2014

# Agenda

- Communicate the Investment Office's (INVO) alignment with CalPERS Strategic Plan
- Provide an update on INVO Roadmap accomplishments & current efforts
- Highlight the ongoing Target Operating Model (TOM) Refresh & related activities
- Preview upcoming 2015-2017 plans & goals

# Enterprise Planning



# INVO Alignment with Enterprise



## CalPERS Enterprise Mission

Provide responsible and efficient stewardship of the System to deliver promised retirement and health benefits, while promoting wellness and retirement security for members and beneficiaries.

## Investment Office Mission

Manage the CalPERS investment portfolio in a cost effective, transparent and risk-aware manner in order to generate returns to pay benefits.

# INVO Roadmap: Evolution and Current Outlook

Pre-2008

- Significant and poorly understood operational & investment risks in several programs

2008 - 2010

- Triage

2010 - 2012

- Establish Foundation – INVO Roadmap & Target Operating Model (TOM)

2012 - 2016

- Heavy Lifting Phase - Complete key Roadmap projects
- Establish a sustainable organization – build repeatable processes, controls & develop a deep bench of people

2014 – Forward  
“Continuous  
Improvement”

- Refine our Strategic Priorities to address new challenges and meet our return, risk, & cost objectives
- Continue to enhance processes, controls & systems on an ongoing basis
- Develop Operational Health Metrics for investment functions
- Launch TOM Refresh & Risk Assessment (Risk Assessment phase to be completed by December 2014)
- Integrate the Investment Beliefs into our investment decision making

## Original INVO From – To (*circa 2009*)

Today (FROM)	Vision (TO)
Long-term, static asset allocation framework	More dynamic framework, responsive to market conditions
Risks not transparent & understood	Key risks understood & managed
Tactical, asset class-based approaches to building strengths & competencies	Clear sense of our strengths & competencies we want to develop
Bottom up approach to value creation	Integrated strategies for value creation that blend cross-asset class approaches
Lack of common systems, processes & analytics	Clear target operating model – strong operational data, governance, systems & controls
Inconsistent culture & employee experience	High performance culture & quality employee experience
Inadequate reporting systems & data for effective cost management	Automated expense tracking & reporting systems, & improved cost effectiveness

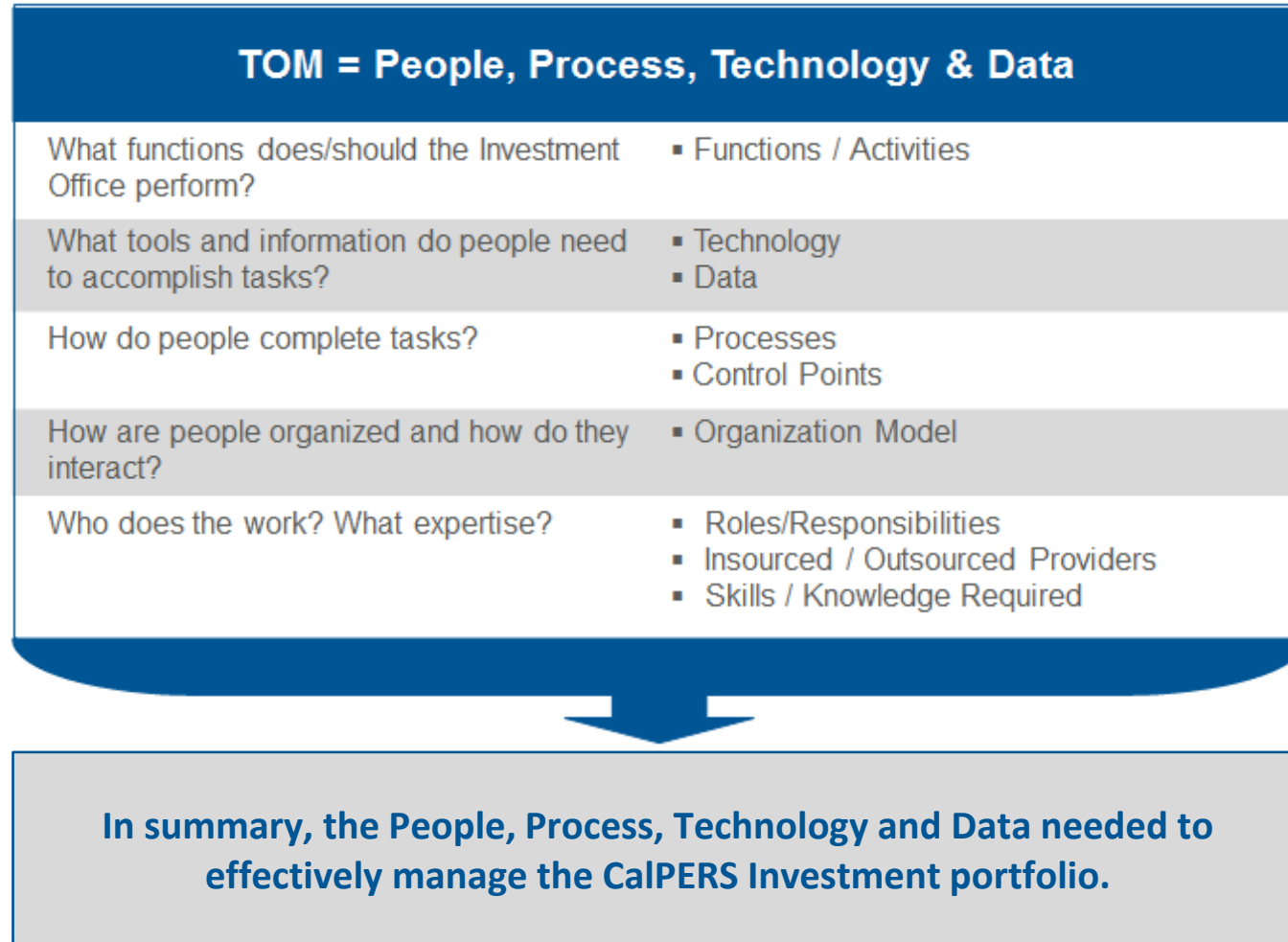
**Gaps drove  
initial  
Roadmap  
Initiatives**

## 2014-16 INVO Roadmap Strategic Objectives

- **Investment Performance**
- **Asset Allocation**
- **Investment Risk Management**
- **ESG Investment Strategy**
- **Emerging Manager Programs**
- **Organization, Systems, & Controls**
- **Cost Effectiveness**
- **Talent Management**

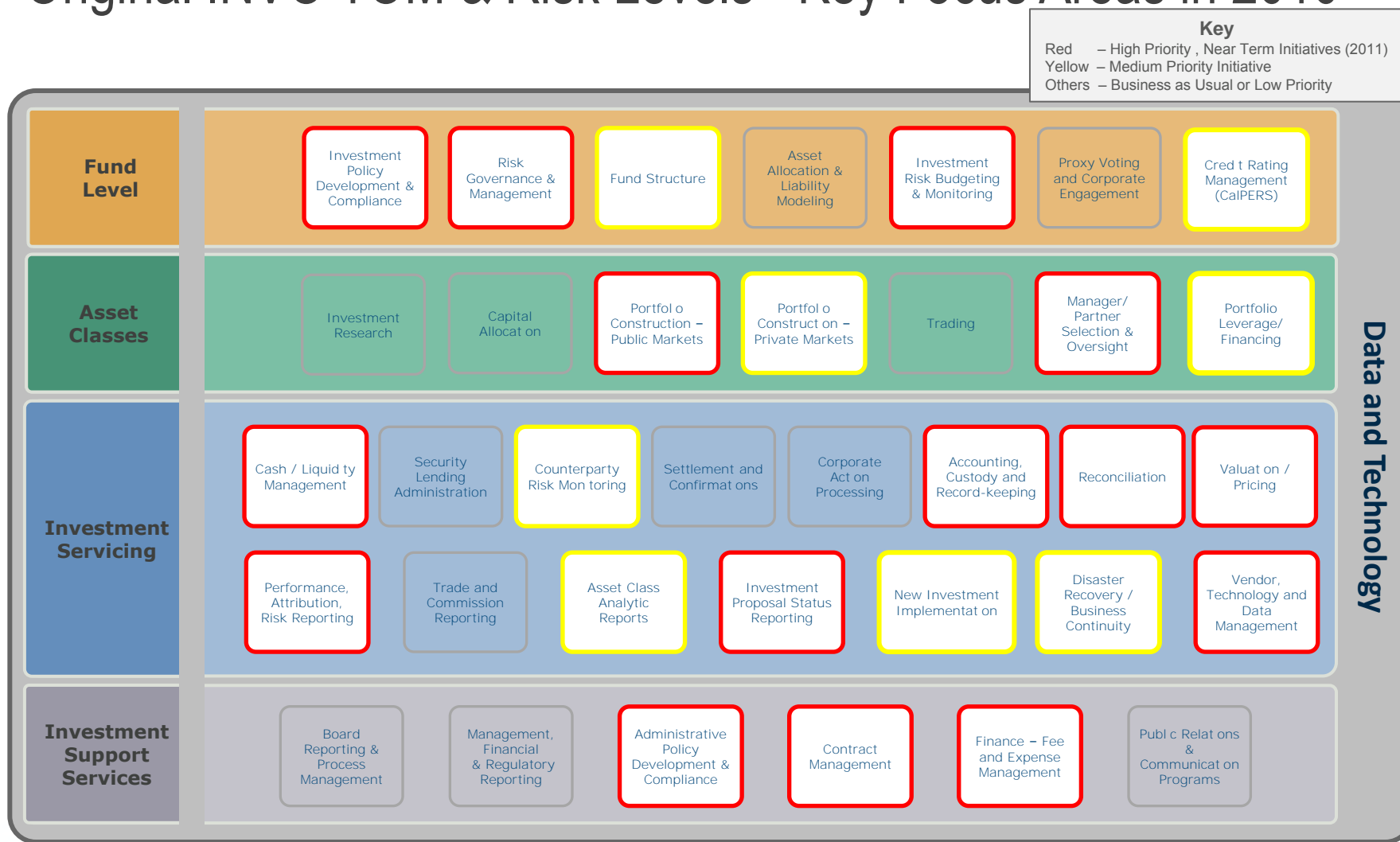
Objectives helped  
drive the  
development of  
the Target  
Operating Model

# What is a Target Operating Model (TOM)?

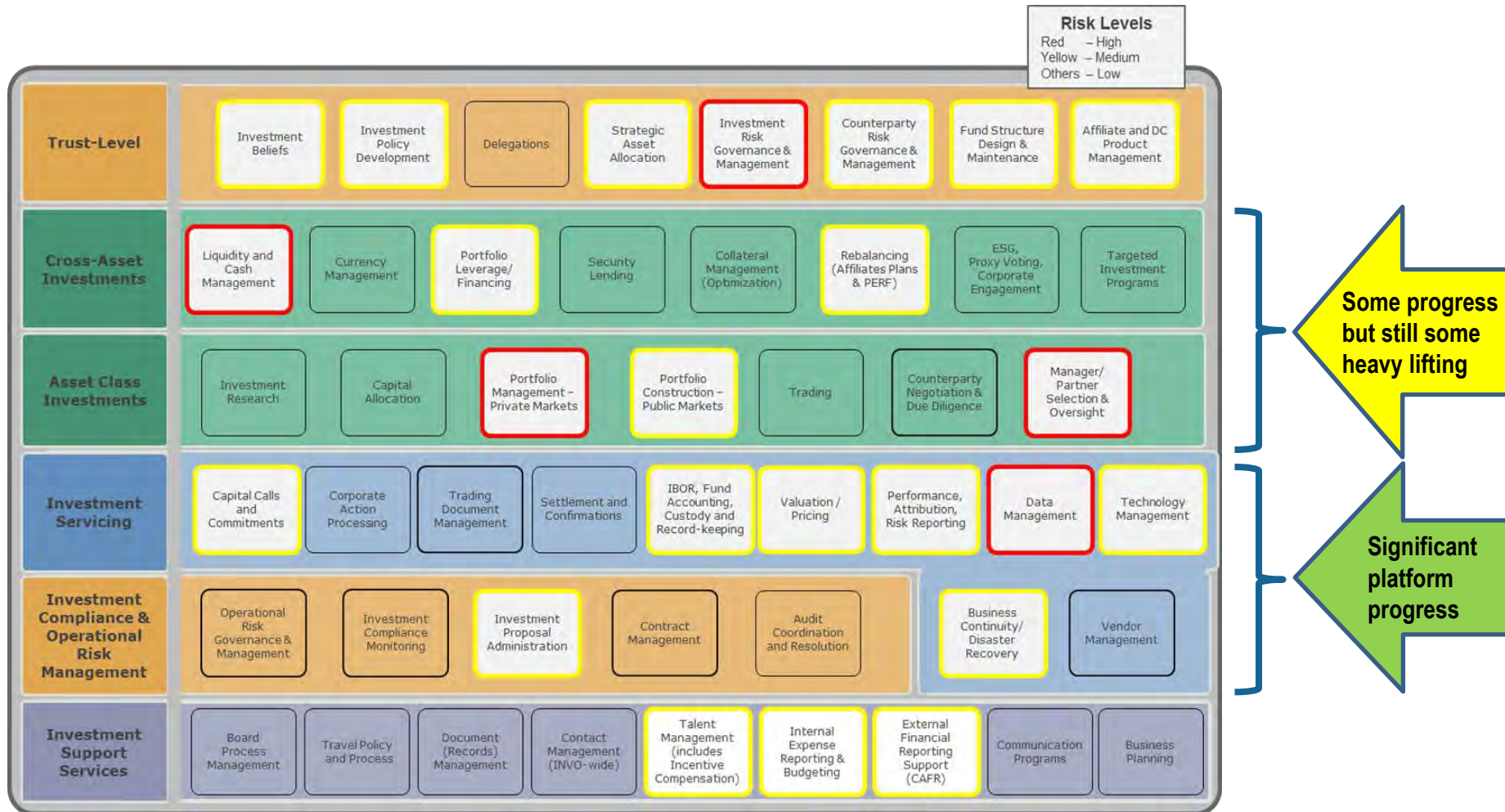




# Original INVO TOM & Risk Levels - Key Focus Areas in 2010

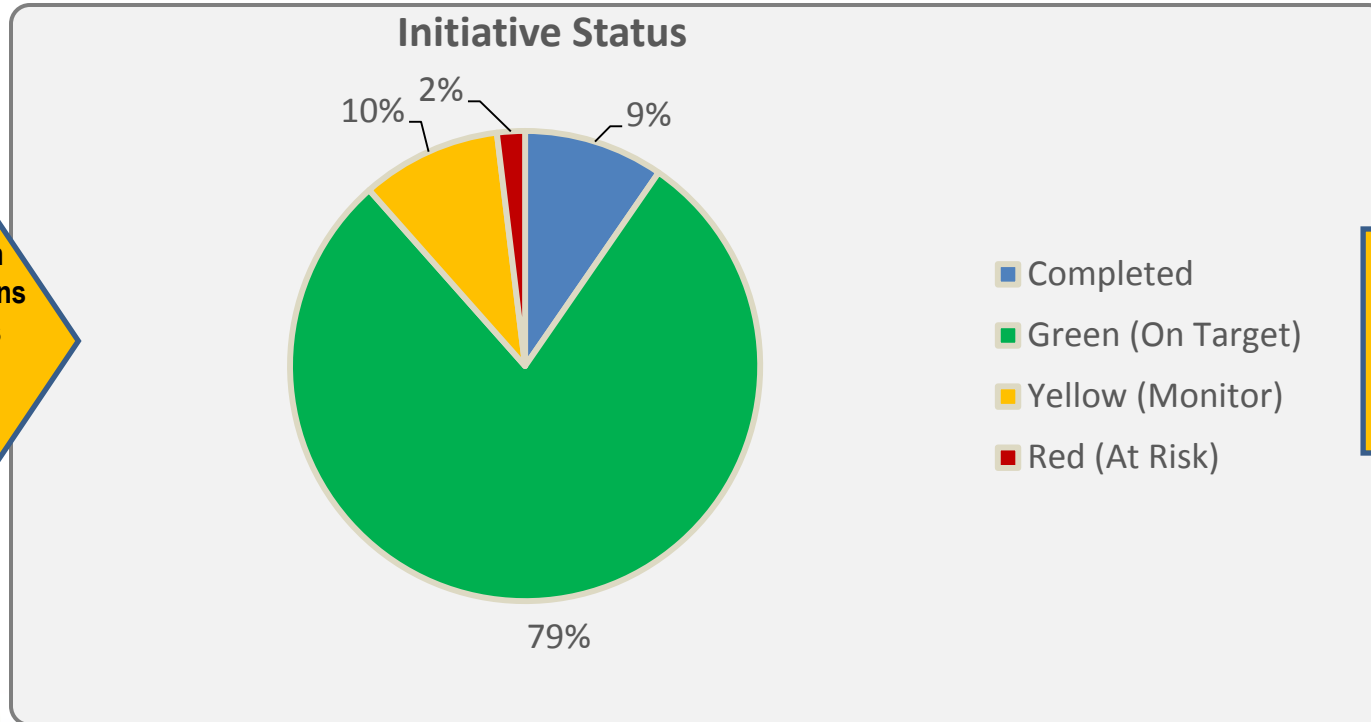


# Current TOM & Risk Levels– Progress Report since TOM Refresh



# Status of Roadmap Initiatives

- The INVO Roadmap Initiatives consist of 52 active projects related to our Strategic Objectives. 26 of these projects are focused specifically on enhancements to the Target Operating Model.
- Currently 87% of initiatives are completed and/or on target, in terms of budget, timeline & objectives.
- The INVO Operating Committee uses a formal process to communicate, monitor, & decide on the status and completion of the TOM initiatives.



## Ongoing Heavy Lifting – Yellow & Red Status

### INVO Roadmap

- ✓ **INVO Classification Study & Organization Redesign Project** – Red Status is due to completion date much farther out than anticipated, due to a prolonged review period within CalHR. Some recent progress on elements of the study. (Primary ownership rests with HRSD)
- ✓ **Executive Compensation Policy Review Project** – Yellow Status is due to the extended anticipated completion date from FY 2015/16 to FY 2016/17. Now underway. (Primary ownership rests with HRSD)
- ✓ **Trust Level Risk Management** – Yellow Status is due to required data movement needs, restructuring of the ISG, and difficulty recruiting.
- ✓ **Sustainable Investments Research Initiative (Phase 2)** – Yellow Status due to delays in recruiting for Investment Officer III – Team Lead, Sustainable Investment.
- ✓ **Contract Oversight Unit Integration** - Yellow Status is due to an extended timeline, resulting from staff reprioritization to address multiple CalPERS Board of Administration Consultant RFP contracts.

### TOM Initiatives

- ✓ **Performance Measurement & Attribution (TOM #11)** – Yellow Status is due to resource constraints, and extension of timeline on Fixed Income deployment.
- ✓ **INVO Expense Management & CAFR Support (TOM #3)** - Yellow Status is due to significant work still remaining versus available resources in the accounting policies & procedures associated with allocation of Administrative Expenses. (Partnership with FINO)

# Recent Accomplishments

## INVO Roadmap

- ✓ **Investment Performance** - Implemented a systematic process to provide standardized analysis of quarter by quarter change in Net Asset Value (NAV) within the Investment Management Group in Private Equity. Exited 10 tail-end funds in Private Equity.
- ✓ **Investment Performance** - Obtained Board approval of new policy portfolios for affiliate funds JRS, JRSII, LES, & CERBT.
- ✓ **Cost Effectiveness** - Updated FY 2013-14 cost savings to \$57.6 million (full update to the IC in April 2015).
- ✓ **Talent Management** – Formed an INVO Diversity & Inclusion Task Force to assess current state and identify and prioritize initiatives.
- ✓ **ESG** - Refreshed Financial Markets Principles and Financial Markets Priorities; presented to the Investment Committee in September 2014.
- ✓ **Investment Beliefs** – Developed Annual Program Review Template and Talent Management-related recommendations; presented to the Investment Committee in August 2014.

## TOM Initiatives

- ✓ **PM2 “Public Markets Portfolio Management” (TOM #1)** - Implemented an Internal Equity Investment Book of Record service & Charles River Portfolio Construction functions.
- ✓ **Strategic Asset Allocation** – Progressed in implementing an integrated Asset Liability Management process & extending it to all investment trusts.
- ✓ **Performance Measurement and Attribution (TOM #11)** - Revised Board reports to improve information delivery, established program reviews, further integrated total fund & asset class performance & risk reports into the ISG committee.

# Upcoming Efforts

## INVO Roadmap

- ✓ **Risk Management** – Deliver presentation to the Investment Committee in Feb 2015 explaining counterparty risk monitoring & value at risk calculation
- ✓ **Investment Performance** - Simplify the Global Equity portfolio by reconstituting the CalPERS Focus List
- ✓ **Investment Beliefs** – Initiate review of best practices for Real Assets partner contracts to align with Investment Belief #8
- ✓ **Investment Performance** - Complete the wind-down of the ARS program by the end of December 2015

## TOM Initiatives

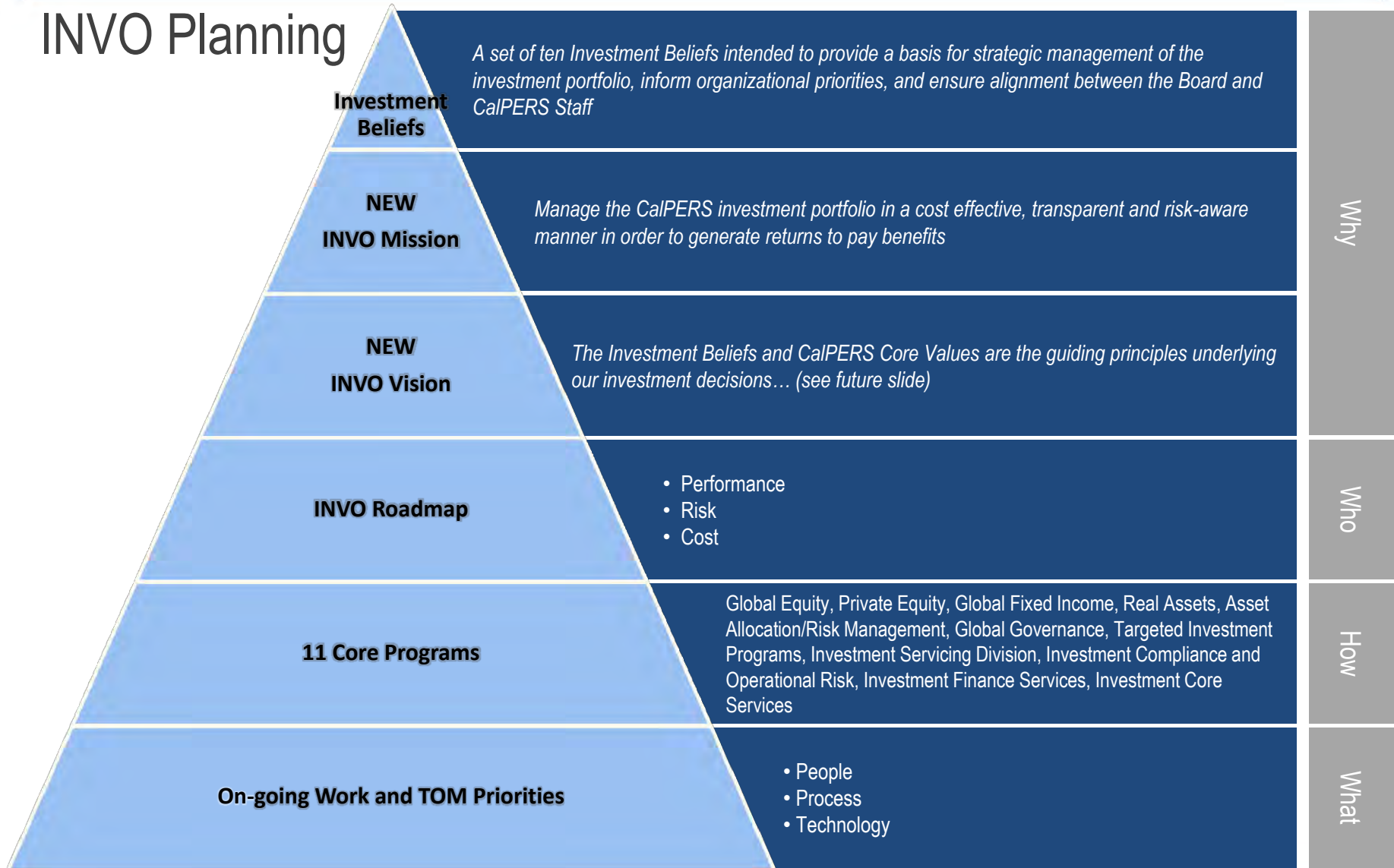
- ✓ **PEARS (TOM #2)** - Complete verification of historical data, validate successful data conversion & perform user acceptance testing & parallel monitoring of Release 1, which replaces PrivateEdge
- ✓ **Manager Selection & Monitoring (Phase 2) (TOM# 8)** - Complete assessment of current state, refresh guidelines & integrate independent oversight function into Investment Compliance & Operational Risk (ICOR) function
- ✓ **Performance Measurement & Attribution (TOM #11)** - Deploy Global Fixed Income Program Review to production, complete gap analysis related to Global Investment Performance Standards (GIPS) in preparation to adopt industry standard for calculating & presenting investment performance
- ✓ **Affiliate Investment Program – Process & Technology (TOM # 24)** - Complete core software development work, implementing data exchange with partner organizations, configuring the production infrastructure, & conducting testing/parallel processing to confirm proper function to support Affiliate Trusts

## Preview of 2015-2017 INVO Strategic Plans





# INVO Planning





## What Do We Want to Keep?

- Focus on returns, risks, & costs as key measures
- TOM Architecture & disciplined administration of projects and initiatives (Roadmap)
- Steady progress on heavy lifting & continuous improvement efforts within INVO
- Focused governance, transparency, & alignment of interests
- Talent Management – recruiting, training, & compensation
- Communication, governance & sharing status and progress across groups
- Asset Liability Management as key asset allocation decision making process
- Asset class expertise & execution

## What Do We Want to Change?

- Carefully examine our portfolio & operations to ensure all programs are repeatable, predictable and scalable
- Consistently measure & report on performance, risk, & cost as well as our “business operations” & efficiency
- Better understand & align risks with research & investment convictions, improve capital allocation process
- Improve collaboration & decision making at the total fund level
- Simplify & focus our initiatives and related communications
- Better relationship & alignment with the goals of the broader organization
- Balance bureaucracy with need for efficiency
- Better measure & monitor ongoing work & responsibilities

# New INVO Mission and Vision Statements

## INVO Mission Statement

- Manage the CalPERS investment portfolio in a cost effective, transparent and risk-aware manner in order to generate returns to pay benefits.

## INVO Vision Statement

- The Investment Beliefs and CalPERS Core Values are the guiding principles underlying our investment decisions.
- We operate with a focus on repeatable, predictable, and scalable portfolios and practices.
- We seek alignment of interests with our primary stakeholders, our business partners and ourselves.
- We use clearly articulated performance, risk, and cost metrics to evaluate our value-add to the funds.
- Our investment and business activities are supported by a solid platform of effective risk management and controls.

## Next Steps

- Continue “Heavy Lifting” on ongoing TOM initiatives
- Complete Risk Assessment and Refresh of the Target Operating Model (TOM), develop Operational Health metrics for investment functions
- Implement changes to internal INVO governance to improve trust-level Investment Decision Making
- Develop a new Roadmap that reflects new Strategic Priorities and addresses findings from the TOM Refresh

## Recap

- We have made significant progress, particularly in operations, systems, & controls
- There is still a fair amount of heavy lifting to do, particularly in building out our trust-level investment decision making process
- We are seeking to better incorporate core workload and management reporting within the INVO Roadmap
- Our vision is to focus on strategies & operations that are repeatable, predictable, & scalable

## APPENDIX

# TOM Initiatives – Status and Look Ahead for 2014-16

Business Initiative		Status	2013			2014				2015				2016	
			2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
ID															
1	PM2: "Public Markets Portfolio Management"	Completed													
2	PE Portfolio Management, Accounting & Data Services (PEARS)	G ↔													
3	INVO Expense Management & CAFR Support	Y ↔													
4	Derivatives Central Clearing & Processing	Completed													
5	Contract Management – INVO Workflow Management	Completed													
10	Trust (Fund) Structure Validation & Redesign	G ↔													
11	Performance Measurement & Attribution	Y ↔													
21	Incentive Compensation Reengineering (INVO)	Y ↔													
12	Pricing / Valuation (INVO)	G ↑													
25	Affiliate Investment Program – Roles & Responsibilities	Completed													
24	Affiliate Investment Program – Process & Technology	G ↔								Added					
6	Investment Compliance Monitoring	Completed													
23	Investment Proposal Administration Enhancements	Completed													
7	Travel Policies & Procedures	Completed													
9	Operational Risk Governance & Management	Completed													
8	Manager Selection & Monitoring – Standards and Compliance	G ↑				Completed :Selection Phase									
26	Operational Delegation of Authority (Non-investment related)	Completed													
15	Vendor Management	Completed													
14	Technology Management	G ↔													
20	ARS Legal Structure & Technology	Cancelled													
13	Cash Management – Processing & Controls (INVO)	G ↔													
19	Investment Policy Revisions	G ↑													
22	Disaster Recovery / Business Continuity	G ↔													
18	Contact & Relationship Data Mgt – Current Business Partners	Defer								Re-evaluate					
17	Data Management – Core Capabilities	G ↔				Defer									
16	Records Retention, Document Management	Defer								Re-evaluate					

↔ Status trend unchanged

↓ Status trend declining

↑ Status trend improving

**Status**

G = On Target

Y = Monitor

R = At Risk

**Level of Effort**

Significant

Moderate